
Panel Four

BEAR STEARNS

Broadcast Network Economics

Panelists

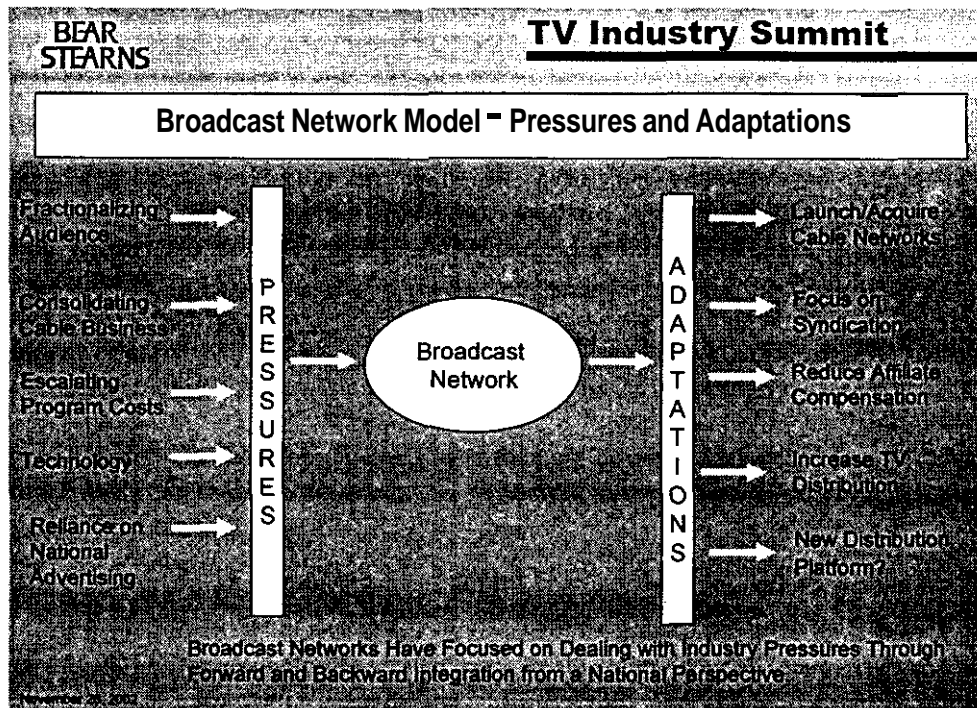
Randy Falco — President, NBC Television Network

David Poltrack — Executive Vice President, Planning and Research, Viacom

Tony Vinciguerra — President and Chief Executive Officer, Fox Networks Group

Raymond Katz — Senior Managing Director, Bear, Stearns & Co. Inc.

Panel Time: 12:00 P.M. to 1:15 P.M.



Victor Miller: Now, what we're going to spend time today on is talking about the pressures that these businesses are undergoing. First, we're starting with — this is just the broadcast network business. Obviously, they're facing fractionalizing audience from the seven existing networks and the 70-plus viable cable networks . . . you know that. The consolidating cable business, obviously, AT&T, Comcast, and what that's going to mean for the industry **as** the cable business consolidates. Escalating programming costs, even in the throes of having a smaller and declining audiences. Technology with broadband and compression . . . and a reliance on a national advertising **as** your sole source of income. All those pressures are being exerted onto the broadcast networks. And what have they done to respond or adapt to those pressures? Well, they have launched cable networks; they've focused on the syndication business; they've gone to reduce affiliate compensation; they've increased their TV distribution bases . . . through duopolies and just buying more television stations. And, of course, we're wondering if any new distribution platforms develop. Now, what happens in the business five years from now? We're unlikely to launch new cable networks. Syndication business is what it is. Affiliate compensation, last time I checked, is theoretically going to be going to zero at some

point. **So**, all these pressures, as they continue to mount, are going to flow right through here. And this is the debate of what's going to happen here; whether the networks are going to see any kind of increase in their television distribution base to deal with some of these pressures.

Tony Vineiquerra: One of the things that is not in any of these charts that I've skimmed through here today is that the number of channels from 1994 to 2001 has increased far more dramatically than the diminution of our audience and our revenue shares. And several points — or have addressed several points that do make network television first choice in most media plans. You do have one chart where you compare the increase in inventory, advertising inventory, between cable networks and broadcast networks and syndication. And I don't think it's any surprise to see . . . our revenues have maintained their percentage to a greater degree relative to the number of channels because their inventory **was** not increased as dramatically **as** cable networks and syndication has. So, I think that goes hand in hand. I don't think there's any surprise there. But it comes down, to me, in one simple phrase: "In a land of pygmies, the five-foot man is still king." And, as the pygmy gets smaller, you're still going to have that gross reach by buying the broadcast networks.

BEAR STEARNS **TV Industry Summit**

Cable Networks – Total Day Viewing and Ad Share –

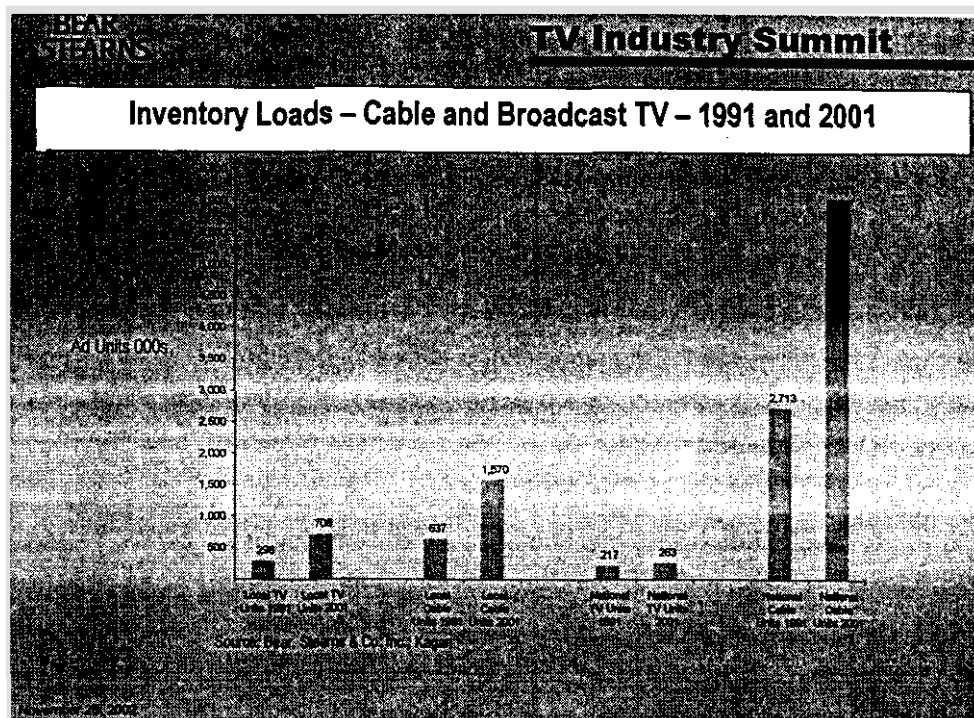
1982, 1990, 2001

	Total Day Share		
	1982	1990	2001
Cable Viewership Share	3.0%	22.0%	44.0%
Cable - National Ad Share	2.2%	9.6%	31.9%
Cable - Local Ad Share	1.3%	7.4%	23.0%
Cable - National Oversell	0.71	1.44	0.67
Cable - Local Oversell	0.12	0.50	1.30

Will Cable's Ad Share Gap Close?

Source: Nielsen, Broadcast, Cable, Radio & TV, by Nielsen Media Research
November 22, 2002

Randy Falco: It seems a little counterintuitive, actually, when you think about the erosion that's gone on in our business. But the fact of the matter is that we've been able to drive price better **than** the cable networks have — particularly over the past two to three years. Because of the proliferation of the cable networks, they've really become a bit of a commodity in the marketplace. So, there's so many groups out there that are available now. So much inventory available. The fact of the matter is that we've become a scarcer commodity in some ways and much more valuable. And that bears itself out in the current scatter marketplace that's going on right now. Money, it's almost like a pyramid. The money is coming first to the networks and then to everybody else.



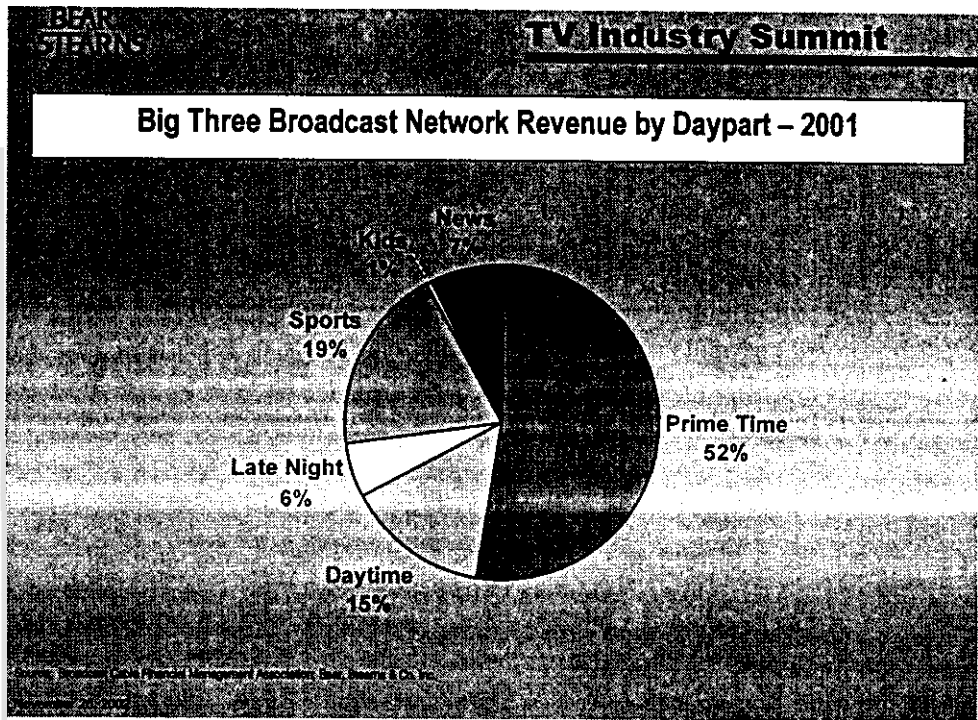
Victor Miller: The fact that, since 1991, and, by the way, Tony, this kind of indirectly talks . . . you can get a sense of the growth in the number of channels because you can see the inventory associated with it. The national TV network advertising units . . . 217,000 units in sign on to sign off in 1991, 263,000 units available by 2001. Cable's gone from 2.7 million units to six million units during that time.

"Cable networks that do specialize and **do** attract a very specific audience are getting higher CPMs and are getting better response from the advertiser."

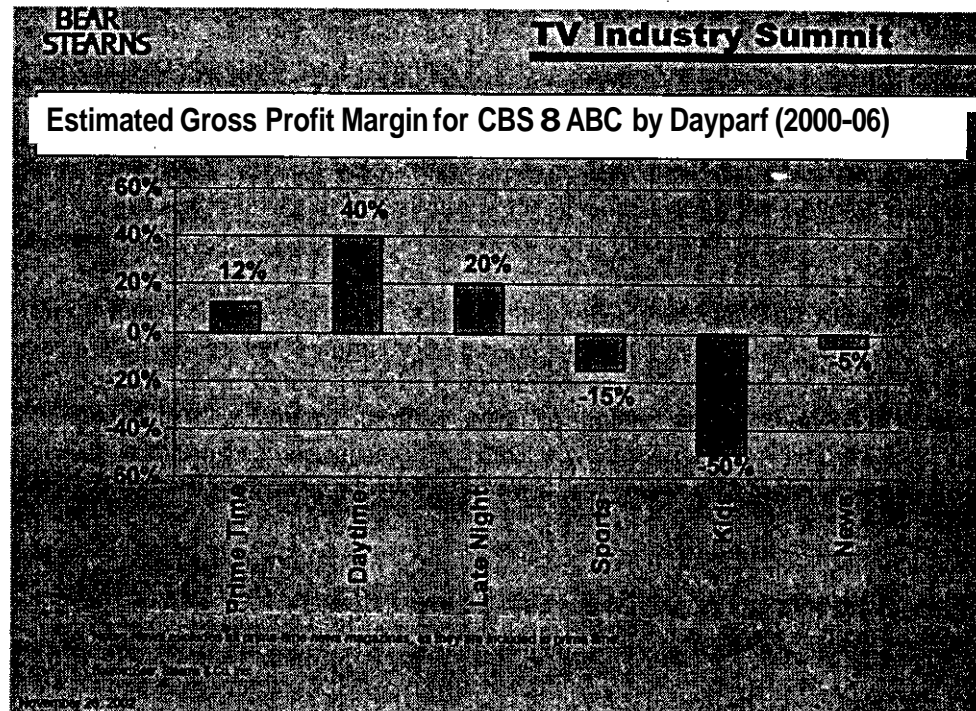
Tony Vinciguerra: If I could add to that. By the way, I wasn't being critical because you've done a wonderful job putting this book together, Victor, and that's the only thing I could find that wasn't in here. So, you did a great job on it. **But**, interestingly enough, what's really happening is the advertisers are making decisions on two fronts: one is the gross size of the audience, the quality of the audience, and, second, the specialization of the audience. Cable networks that do specialize and do attract a very specific audience that has very specific interests are getting higher CPMs and are getting better response from the advertiser. The general interest networks are the ones that are becoming very commoditized and. . .

Randy Falco: Differentiation is the key for them, and there's only a few that do it.

Victor Miller: David, in what dayparts is cable most threatening to the network business? And then, to all three of you, how at risk is the broadcast network revenue stream in general do you think? David? First, on what dayparts do you worry about in terms of the network perspective? If any?



David Poltrack: Well, the very recent trend would probably, I think. . . the area that's the greatest concern to us right now is daytime. Daytime historically has been a very profitable daypart with relatively small audiences but specialized audiences. And it's not just cable; it's syndication. There is a proliferation of brands specifically targeted — cable brands — specifically targeting women and syndicated programming targeting women. And daytime is the daypart that I think is most challenged at this point in time.



Victor Miller: Now, daytime, in our estimation, is one of the more profitable parts of the day; is that true? And then, so, what concern would you have there? Is that true, in general?

David Poltrack: I would say that's decreasingly true.

Randy Falco: Yes, that's a daypart out of favor right now, as we say.

Victor Miller: But it is a profitable daypart, right?

Randy Falco: It is a profitable daypart and more profitable to those networks that own the programming.

Victor Miller: In other words, the soaps themselves . . . ?

Randy Falco: Yes, the soaps. What I'd say on that chart, though, the way I'd answer this question is that the only daypart, in fairness, that cable has really sort of taken away from us and in some ways destroyed is kids on Saturday morning. And we let them — we all let that happen. And Nickelodeon sort of came in, reprogrammed the daypart, and you can see that's why it's . . . minus **50%**. It really . . . that one got away from us.

	Total Day Share		
	1982	1990	2001
Cable Viewership Share	3.0%	22.0%	46.0%
Cable - National Ad Share	2.2%	9.6%	30.9%
Cable - Local Ad Share	1.3%	7.4%	23.0%
Cable			
National - Overall	0.74	0.44	0.97
Local Cable - Overall	0.42	0.34	0.50

Will Cable's Ad Share Gap Close?

Victor Miller: Let's talk about cable in general. Do you have any concerns about cable closing the advertising gap or is it just . . . ? That other slide where we just saw . . . a hideous level of inventory. Is that really the issue?

Tony Vinciguerra: Well, I'm encouraging it . . . because I supervise the cable networks at Fox also!

Victor Miller: And that's probably why you're answering the question.

Tony Vinciguerra: Yes, exactly! But over time, I believe — and my broadcast network brother may differ on this — over time, I believe it will narrow . . . it has to narrow because right now, there is such an overhang of inventory in that marketplace that the advertiser has much leverage over the cable networks in negotiating those deals. Over time, that inventory will be absorbed, and it will begin to grow as any normal business would.

“The smart cable network guys will know that they have to differentiate themselves to get price. And that means they're going to have to invest in much more expensive programming.”

Randy Falco: Actually, over the past two years, the gap has widened. Now, I don't think that's going to be a continuing trend because I do agree that over time it will start to diminish.

Victor Miller: Is that because we're going to have a stabilization of inventory?

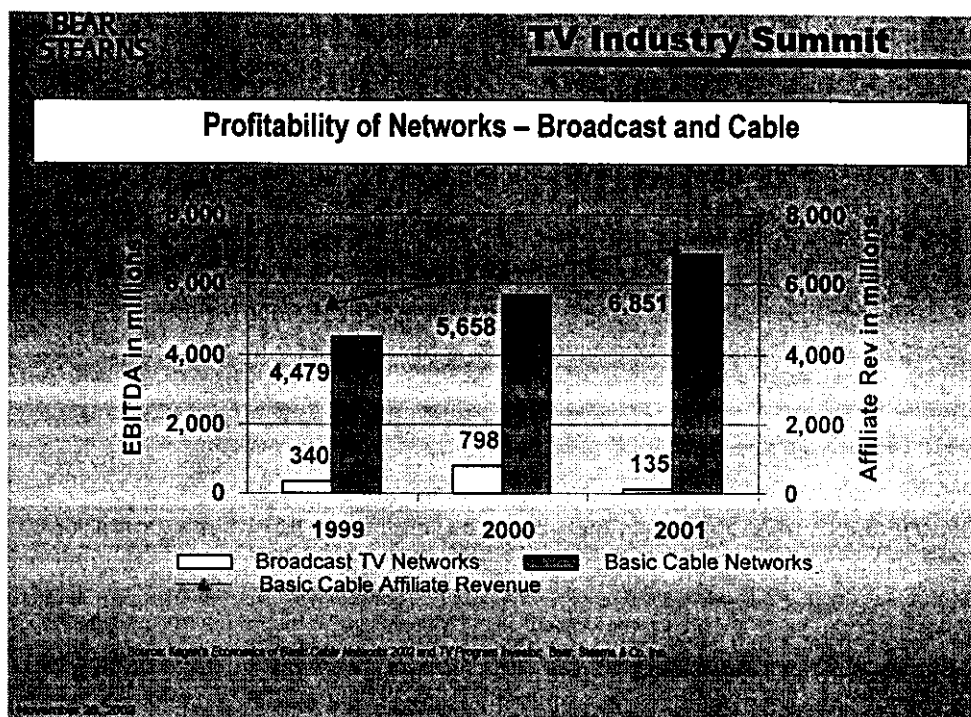
Randy Falco: Well, as we talked about before, I think what's going to happen is the smart cable network guys are going to know that they have to differentiate themselves in the marketplace in order to get price. And that means, for them, that they're going to have to invest in much more expensive programming like you've seen already on MTV, like you've seen on HBO. They're really paying the price for the extra ratings that they're getting; that's the only way the gap is ever going to get closed. But will they ever reach [cost per thousand rate] parity with broadcast networks? Not in my professional lifetime. It will never happen.

“But will they ever reach parity with broadcast networks? Not in my professional lifetime.”

David Poltrack: The top ten cable networks are down 5% this year; they're down more than the broadcast networks. The broadcast networks are down about 2% this year. . . the top . . .

Victor Miller: In terms of ratings, you're talking about?

David Poltrack: In total ratings. The top ten cable networks are down 10%. And all the way since 1997 — the top ten cable networks have not been where the growth in cable is; it's been in the smaller cable networks. It also has not been an adult **18 to 49** or an adult **25 to 54** targeted . . . it's been adult **50** plus, children, around the fringes. So, it really hasn't been a qualitative reduction of the gap between the qualities of broadcast television and the qualities of cable television with the exception of the highly specialized cable networks that deliver a unique audience that have a strong dominant position with that audience, which, fortunately, Viacom has a few of!



Raymond Katz: Following up on that, if you go to the next chart, I think it points out some very interesting economics within the prism within which to view the CPM gap closing. If you take a look, that's both our estimate of historical profitability of the six networks and forecasted going forward, as well, out to 2001. And the red bar is the cable networks in the aggregate. Obviously, profits are a lot higher. What's interesting about that is if you look at the line graph, it's our estimate of what the affiliate revenue was — what the cable operator pays to the networks. Basically, it's the profits of the cable networks. Now, if you were to close the CPM gap — take the 2001 number, that red bar would probably be twice as high. And, to me, that just seems that the economics will dictate that won't happen, the marketplace won't allow that to happen. Are we looking at that right?

Tony Vinciguerra: Yes, but you said close, not equal. If the CPM equalized, you would see that double. I think what Randy and I have said is that will close . . . it's not going to get to that point.

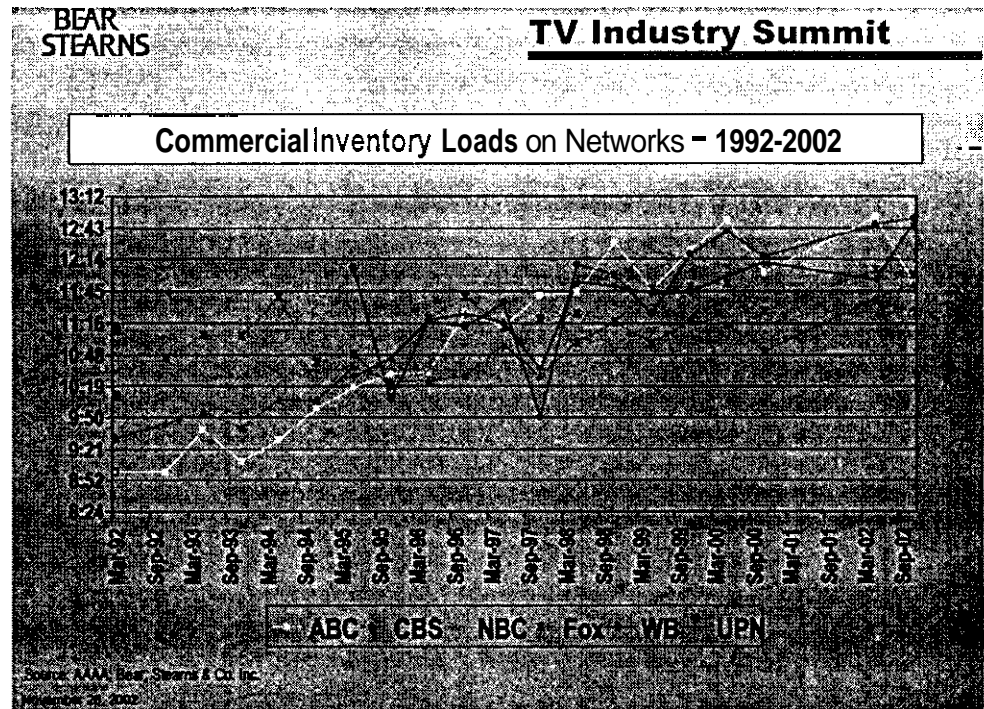
Randy Falco: That's not going to happen . . . it's a zero-sum game now, right? There's such a saturation of cable networks now that the share is going to go back and forth. If we lose share then the top ten guys, like TNT, will lose share in the mix. Every time another platform is added someplace, that's going to take away from the existing corpus of GRPs [gross ratings points], and it's going to come out of everybody's hide.

Victor Miller: The other thing that's interesting about this is that if you look at the networks with much higher ratings but very high cost structures, they generated almost no profit in 2001, if our numbers are about right. If you take away the affiliate fees from the cable business, they're going to make the same level of profit as the broadcast networks on very, very tiny ratings with smaller programming costs. It

really shows the differential, the potential upside, arguably, of getting paid retransmission for your . . .

Tony Vinciguerra: That's the crux of many of the conversations you heard earlier this morning. If there weren't sub fees, the cable businesses would not be operated as they are today. It was in the MSOs' best interest to pay these sub fees so they could develop competitors to the broadcast networks and to stations . . . and they've been successful at it.

Randy Falco: And they've made a nice living doing it.



Victor Miller: Let's talk about broadcast network inventory loads. Are we at the theoretical end to inventory expansion? Obviously, this is a revenue driver, is expanding inventory. There seems to be an increase in sponsorships of shows, product placements. How will we try to theoretically expand the inventory when it looks like we're hitting theoretically high levels because it's been fairly stable over the last couple of years? Are we at a theoretical end to inventory expansion on the network? And what are you doing about it? Do you want to start, Tony? And we'll go right across?

"American Idol had a tremendous amount of product placement and sponsorship within it, and it was very successful for both the network and for its partners."

Tony Vinciguerra: I would like to ask an attorney if we could answer that in this room . . . with the competitor sitting at the same table but, be careful about it I guess. I would just say Fox has not increased inventory a tremendous amount since 1992. Actually, it's only increased a little . . . incrementally. We are very concerned about the clutter in programming. And it is not to anyone's best interest if we increase clutter in programming and drive viewers away. It's just another reason for viewers to go searching for alternatives for their free time — for their viewing time. So, we are seeing an increase in product placement. We are seeing an increase in sponsorships. American Idol, as you saw last year, or last season, had a tremendous

amount of product placement and sponsorship within it, and it was very successful for both the network and for its partners. So, I think you will see more of that going forward — probably not a lot of inventory, but more of the other. . .

Victor Miller: Randy? David?

Randy Falco: Yes, I think from a traditional sense, yes, you've seen about the top level, **as** much **as** you're going to see. In fairness, I think mixed up in some of that inventory is probably a little more network promotion time than we've ever had in the past. And that's mostly because our voice has been somewhat diminished in the marketplace. And, so, we think — the promotion department thinks we need more time. So that's a little bit of what's going on there. And I do agree that we have to sort of look at other ways of expanding "inventory" in the future. You've seen a lot of it on reality TV over the past summer . . . in product placement . . . that kind of stuff. You haven't seen it yet really in scripted drama, although I'm sure that's going to be a pressure that we'll have to deal with in the future.

Victor Miller: David? Any follow comments? Or has enough been said?

David Poltrack: Well, I think one thing we do is — and we now have minute-by-minute ratings and we carefully monitor minute-by-minute ratings. We study audience flow patterns and everything. And we have not seen any significant migration away from the networks due to commercial inventory; the pattern has held fairly constant. Obviously, if we started to see that then we would have to . . . we would probably talk about addressing inventory mix to make sure we're not losing viewers. Right now, we seem to be at a level that is acceptable to the American public, and we're not getting any defection so . . . the level right now looks good, but we're not likely to go much further.

Victor Miller: The only reason I mention it, obviously, is that in a single revenue business, you can grow your revenues two ways: you either increase rate or increase inventory, or you do both. So, if you're reaching a theoretical limit on how much inventory can put on, it's just going to put pressure on the network in the next five years. Obviously, they can't grow the inventory levels we've seen in the past. And so, that just may apply a little pressure to the revenue side of the equation a total of five years out.

"Inventory as a source of expansion — a source of growth — is pretty much used up. Pricing is going to be the key **going** forward."

Randy Falco: Inventory **as** a source of expansion — a source of growth — is pretty much used up. Pricing is going to be the key going forward. And everything we've talked about before in terms of the proliferation of cable networks has helped us in one regard in that it helps us drive price; in another regard, though, it hurts us because it diminishes our capacity. And that's what the game is right now. We can drive price, but we're running out of capacity.

TV Industry Summit	
Top Ten Ad Categories - Network - 2001	
	By Percent of Total
Automotive	14%
Retail department stores	9%
Pharmaceuticals	8%
Restaurants	7%
Motion Pictures	7%
Telecommunication	6%
Beverage	4%
Cosmetics	3%
Candy/Snacks	3%
Credit Cards	3%
Total	62%
Source: Various Sources	
November 20, 2002	

Victor Miller: Let's talk about the top ten ad categories just briefly. What's interesting here is that the networks are about half as dependent on the auto business as are the local stations, which is remarkable. First of all, does the network see just a heck of a lot more overall advertisers in general, David? And, secondly, are there any of these categories that, from network perspective, either give you signs of encouragement because you think they're going to get more of those dollars? Are any of these keeping you up at night that they might flee and look for other alternatives, given the price increases we've seen?

David Poltrack: I'm looking at these categories. They all look fairly stable; in fact, they're the growth areas. Obviously, the pharmaceutical category is one that has significant growth potential because of demographic trends as well as the growing prescription drug advertising; that seems to be a very strong category. I think there's a lot more future growth there. The difference in these categories is that in 1994, the last time we had a dip in the television marketplace, there was a flight to promotional alternatives. And that . . . actually more money went out of television during that era than toward promotion . . . than went out of television toward cable. And that money — that failed — and it was a very carefully documented failure. The sophisticated advertisers tracked the effectiveness of that promotion; there were major studies how advertising — how television advertising works — one and two — that documented the failure. When we saw the recession in 2001, we didn't have that flight; we didn't see money go out of advertising in television into the promotional sector because they now know that that doesn't work. All of these categories, I think, are more committed to television advertising as a major marketing tool today than they have been in the last — ever. So, I see all of these categories up . . . they're going to use the medium even more creatively and more effectively. And I think the retail sector is an area where there could be potential growth; there's much more competitive competition there. And the movies — basically, network television advertising makes or breaks movies, so I think we're pretty safe there.

Tony Vinciguerra: I would also add if you compared the **Fox** top ten with the CBS top ten, you'd see far different percentages simply because of the demographics' use of the networks.

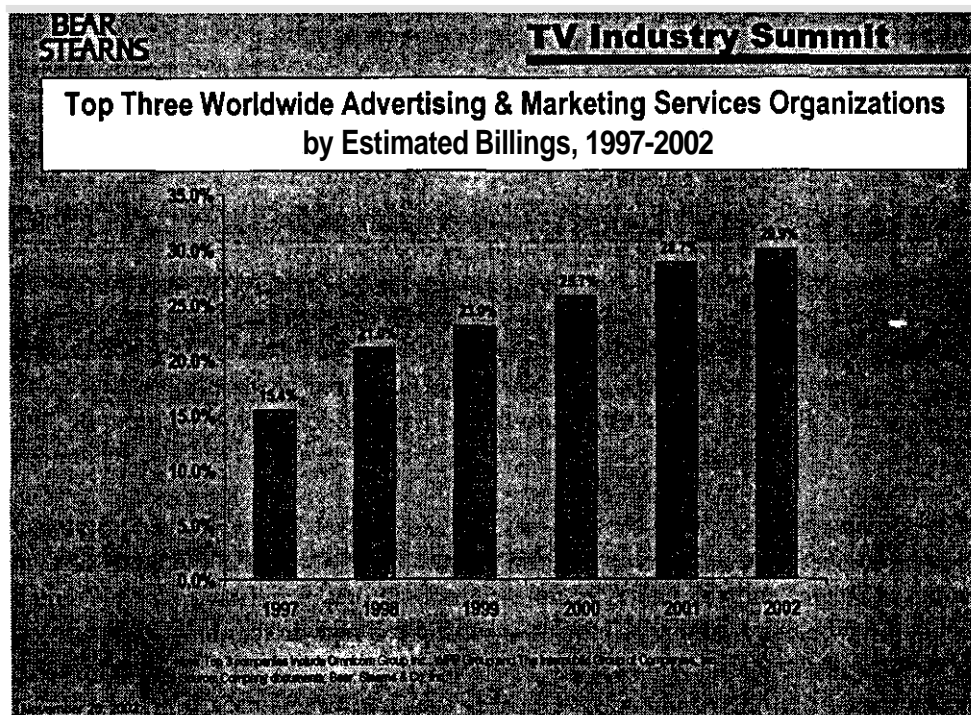
Victor Miller: **So**, are there any categories on the **Fox** network that you are encouraged by and/or worried about?

Tony Vinciguerra: I haven't seen anything to be worried about in the past year and going forward the next year, which is about all you can look at at this point. Let me say the next quarter, which is better!

Randy Falco: I would just say the best way to think about it — it's a very cyclical business, our business. So, these categories sort of go up and down every year; they go between network and local, and they find their way back. The other thing is that broadcast television is sort of a classic case of a business that goes back and forth and up and down. And, I'll give you an example: pharmaceuticals five years ago — I think we've grown 180% in just five years. Foreign cars and the automotive category have grown quite a bit. And every time there's a share war, whether it's in the beverages or retail or anyplace, the networks are always the beneficiaries.

Tony Vinciguerra: And cell phones in the last year. . .cell phone companies in the last year have been . . .

Randy Falco: Yes, we love share wars.



Victor Miller: Let's talk about some of the pressures on the network from the edge, but here's **the** top three worldwide advertising and marketing, which, I think, is **IPG**, **WPP**, and **Omnicom**. These shares have gone from about 15.4% of total worldwide billings to almost 30% of worldwide billings. You have a concentration in the ad

agency business. How is that affecting your business to the positive or negative?
Randy?

Randy Falco: I always answer this question by saying, they didn't do it to help **us**. *So*, clearly, they're going to ~~try~~ to affect the price by being smarter about the marketplace, knowing how much is going on in the marketplace. To this point, however, it really hasn't affected **us**. And I think it really comes down to — it's very difficult to execute. There are just so many advertisers. And if you think about it, these buying groups don't really control the strategies of all their clients. *So*, it's difficult for them to really pull off something in a big way; it's also difficult for them to leverage all of their clients against you. If I were Coca-Cola and I had . . . and I was being represented by somebody, I wouldn't think too kindly of them trying to leverage me as one of the big players, and the benefit of that going to one of the small players. I wouldn't be really happy with my buying group if they were trying to do that. *So*, I think this is really something for us to keep our eye on. As I said, it hasn't been done to help us. But to this point, we really haven't seen a big impact on our business.

Tony Vinciguerra: I would agree with that, maybe looking at it from a slightly different perspective. These big agencies, buying services, may represent 40 or 50 clients coming to the up-front every year. And every one of those clients wants to make sure they're serviced, in their mind, the best of any of those 40 or 50. And the agency or the buying service is not going to want to, in my mind, be short of inventory when it comes down to that 39th or 40th client who expects to be treated with the same weight and respect that the No. 1 or No. 2 client is. *So*, this consolidation in times of great demand . . . and, listen, this business is all supply and demand; there's no other way to describe it. And if there's demand, that's going to drive pricing.

David Poltrack: From the research perspective on this, I think — taking another perspective — I actually think it's a very good thing because I think there's a lot of competition among these companies to introduce new media planning tools and new buying tools. And the ones that I've seen so far actually support the dominance of network television. I think we saw that in the up-front. They're also competing with each other, which is . . . and this is kind of. . . this is not something I thought I would see, but the competition of these big giants with each other . . . when they get into the up-front market, that competition, I think, in this up-front market, I think, helped **us**. I think it worked to our advantage. They're competition among themselves.

Victor Miller: Ray?

Raymond Katz: As a follow-up, looking at this from the other direction, how about consolidation in your companies? Let's take Dave, specifically, in Viacom, there's — one of the buzzwords on Wall Street has been, for a long time, cross-platform sales. And network television is certainly, if not the, one of the engines that drives that. How do you integrate the network buy in **CBS** and in Viacom?

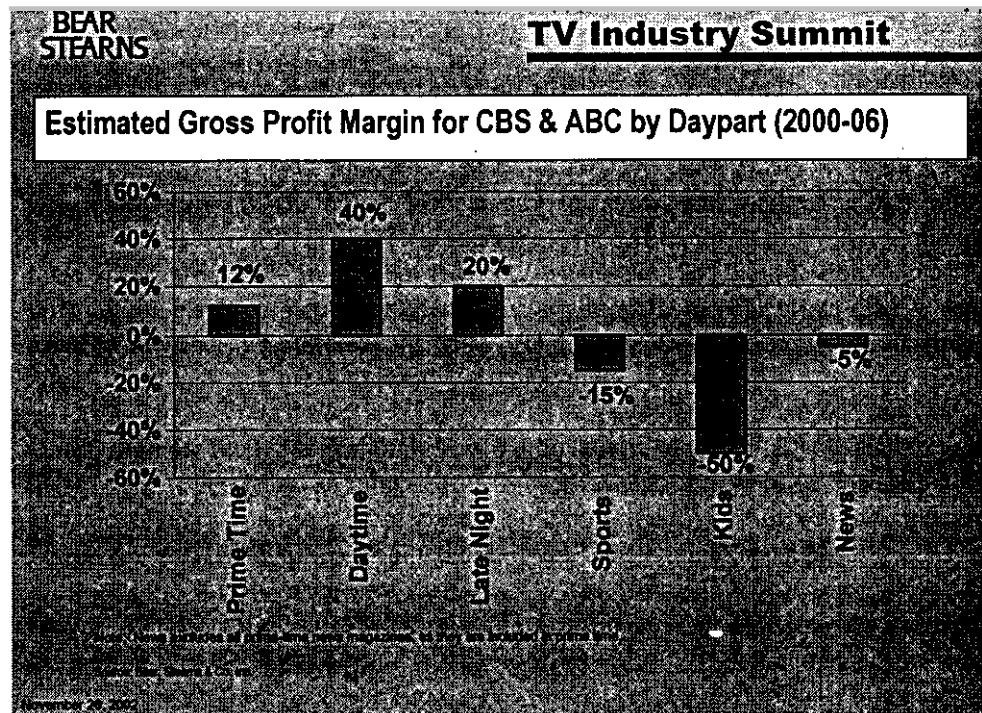
David Poltrack: Well, I think that also comes back to what I was just talking about. The cross-platform selling requires a level of sophistication by the seller and the buyer. And as these big buyers get more sophisticated, I think the big sellers with the

cross-platform opportunities will have an advantage in being able to work with these sophisticated buyers. But we're still very early on in that program. Viacom-Plus has been a successful cross-platform operation, but I think we're in a learning curve on this right now. And we're just beginning to learn how to manage these assets.

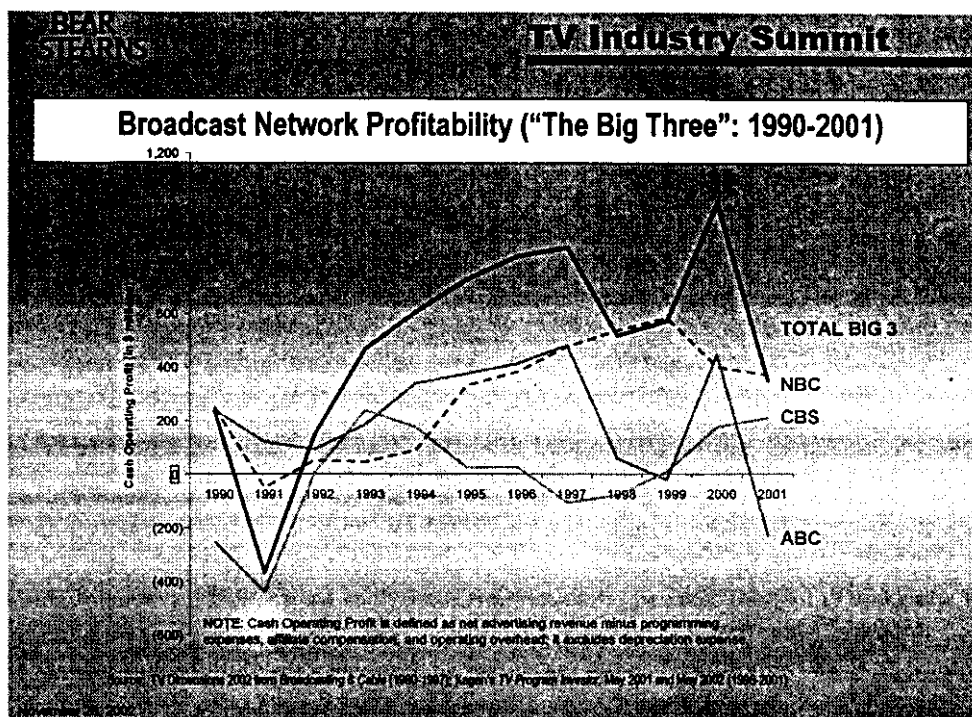
"In a year where there is more supply than demand, you'll see a lot of cross-platform deals. In years where there is more demand than supply, you won't."

Tony Vinciguerra: I'll go back to my last statement that this business is all supply and demand. In a year where there is more supply than demand, you will see a lot of cross-platform deals because companies will try to increase their share using all their assets by discounting. In years where there is more demand than supply, you won't. And it's almost as simple as that. But, as David says, the sophistication of buyers and seller as they continue to evolve and create integrated inmarketing campaigns that go right down to the retail level, you'll see some of that also.

Randy Falco: By the way, it's also easier for the sellers to pull this off than it is the buyers.



Victor Miller: Let's talk about profitability. These are our estimates — Ray's estimates, actually — of CBS and ABC combined, just to give us a sense. Prime time at a low double digit, daytime being 40s, late night, 20%, all the way down to sports and kids; and news overall losing dollars as a network business.



Take a look at the profitability over time . . . I guess if you look at 2001, you can see NBC is still quite profitable; CBS has made a remarkable recovery and is making profits at this point. And, last year, the ABC network, of course, due to ratings stresses over two years, wasn't that pretty a picture. But I guess the question is, what dayparts are profitable? Are we right here? Which ones are not looking like they will be profitable in the five year — remember, we're looking five years out. What does this model look like in five years? Where are the stresses on the dayparts? And is the broadcast model **as** it is right now . . . ? Can't grow inventory that much, expanding costs. Is it a profitable business in five years? What does it look like?

Tony Vinciguerra: Thankfully, **you** left Fox off that chart. . . .

Victor Miller: And what would that look like, Tony?

Tony Vinciguerra: Well, obviously, we lost a lot of money last year, but. . .

Victor Miller: We could just substitute you for ABC, how about that?

Tony Vinciguerra: Okay, maybe a little bit lower than that, maybe, but clearly, we have two data parts, prime time and sports. Prime time this year will actually be profitable on the Fox network — slightly. It's not a business you'd want to own **as** a — I know you have enough money to go buy a network, Victor, but you wouldn't want to buy a broadcast prime-time network. Sports are where we're losing the money. And that is a total reflection of the deals we've made in the past. Those are very good businesses . . . NFL, baseball, and NASCAR are extremely good businesses for the network, if you pay the right amount of money for them, and we didn't.

“You have one year of negative growth with one of these deals — it creates havoc with your business plan.”

Victor Miller: You paid for those in the **1999-2000** environment, where no one would have expected we'd have a **20%** correction in **2001**.

Tony Vinciguerra: Exactly. In the world of optimism that everyone lives in, we would have expected that every year you would see growth in **CPMs** and revenues — obviously, that didn't happen. You have one year of negative growth with one of these deals — it creates havoc with your business plan.

Victor Miller: And what is your five-year thought on that? Does the network business, as it is right now, on the track it's on, how profitable a business can that be?

Tony Viociguerra: On the prime-time side, I think it will improve over time — not dramatically, but it will improve. And on the sports side, it will, given the fact that — I noticed in here you said we had a \$750 million write-down. I think it was more like **\$931** million or something like this. Just to make it clear that we had a \$900 million write-off, not a \$750 million write-off, on sports. The sports side will get closer to profitability, but we'll see how that comes about.

Victor Miller: Randy?

Randy Falco: Prime time . . . **NBC** is very profitable, and I think over the next five years, we will continue to be very profitable because of the investment and the kind of programming that pays for us. I'd also say, parenthetically, that, just like sports a few years ago, when we decided to exit that, that's part of why we're actually so profitable now **as** a network. In prime time, one of the things that we're all going to have to come to grips with is theatrical movies **as** a network, television offering is probably not going to happen in the future — it's dead. It has too many windows before it gets to the networks, and there's very few of them that really work anymore. And I think in order to maintain that profitability going forward, we're all going to have to deal with that reality.

Victor Miller: So, that means you're going to have to program, theoretically, another three hours?

Randy Falco: Yes, I mean, we're down to one movie a night. I think **CBS** is down to one movie a night also. We used to have two, for instance. But just investing in big theatricals is not a business anymore. And I think we're all going to have to come to grips with that. And I think we're also going to have to come to grips with controlling more of **our** product and being able to share in the **aftermarkets as** part of that prime-time equation. Daytime we touched on; we don't have a lot of hours in daytime. One of the hours we do have is an extension of our **Today** show, which is very profitable for us. I would agree, though, that it's a difficult **daypart** only because it's really supported mostly by **P&G** . . . to the extent that **P&G** goes up and down, your whole daytime equation can. . .

Sports, I think, is dead on the networks; that's just my opinion. In deference to everybody up here. . .

Tony Vinciguerra: I won't argue with you . . .

“The **NBA** deal **is** probably the **first** sign of reality, which **is**, it’s all going to go to pay.”

Victor Miller: Now, you have both, Tony. You have that Fox Sports Net so. .

Randy Falco: I just think going forward, it’s probably going to go to pay cable. And the NBA deal is probably the first sign of what’s . . . of reality, which is, it’s all going to go to pay. It will ultimately probably even wind up on the regional side because that’s where they’re able to get the most money. And maybe ten years from now, everybody will come to their senses and figure out that you can’t charge an SO-year-old grandmother in Fairfield County — which is my mother — for ESPN, which she doesn’t watch. And so, to the extent that ESPN can make all of those kind of dollars by not having it à la carte, then they’ll be able to afford it, and we won’t. And that’s just a reality. News is a huge profit maker for NBC; it’s one of our top profitable divisions.

Victor Miller: But if you didn’t have MSNBC and CNBC, would it still be as profitable **as** a network business?

Randy Falco: It would still be **as** profitable. And the other guys up here have done it. I know CBS leverages a lot into prime time now, with *60 Minutes* and *60 Minutes II*. We do the same thing with *Dateline*. That’s a big part of the news equation. The *Today* show is an enormous profit maker for us; it has 50% of the share of the audience and 55% of all the revenues. We make a ton of money there. It’s the ultimate . . . it’s the one thing you can control in network television. It’s reality programming, and we have it, it’s controllable, it grows less than 3% a year in terms of cost; and most of that is attached to talent, and you can control that. So, it’s a great business to be in.

Victor Miller: David?

David Poltrack: Basically, I think we’re in the same position now. Prime time, I definitely think is . . . obviously, that’s the key to network television. I think we’ve made some discoveries with reality television programming and getting out of the theatrical business and things about our programming mix that I think we know how to make for a profitable network prime-time schedule. I think what happens, though, is sometimes when you get competitively behind, you’ve got to invest yourself back into competition so a network goes . . . like the situation that perhaps ABC is in now. They’re having to spend more money in order to get back competitively. So, there will be periods of profitability back in and out. But I think, generally, the future is right there.

“Late night’s a great time period; it’s just going **to** get stronger. The demand for that daypart seems to grow every year relative to overall television.”

Daytime, I already talked about — the fact that daytime, I think, there’s some pressure on daytime. I think it will remain profitable. Program ownership is an issue there. We have *The Young and the Restless*, a very strong daytime franchise, but we don’t own it. And that always is a challenge there. Late night, I agree with Randy, I think late night’s a great time period; it’s just going to get stronger. The demand for that daypart just seems to grow every year relative to the overall television. Sports, well, we have a little different perspective on sports. I think there are areas of sports that you can make money in — golf is a very . . . so far, I think. . . a profitable sports daypart. In terms of the big franchises, NFL football and the franchises like that, if you’re only going to look at the network revenue stream, it’s hard to rationalize them, but when we make a big bid on sports, we look at our television, our owned and

operated television stations' revenue stream. We're now looking for contribution from our affiliates on the major sports events, and we also take into the account the promotional value **of** sports. And we actually put a monetary figure on the promotional value of **sports**. And when **you** do that type **of** accounting I think there's still room **for** sports on network television. But there are going to be some tough negotiations coming up in the next round before it . . . kids, we solved that problem, we gave it to Nickelodeon, what can I tell you? They're doing **very** nicely, thank you. And when I saw that **5% loss** for news I said, who's losing money on news? Sure **as** hell NBC is not losing it, and we're not either. **So** I think news is — I think you're off on news. I think news is currently a profitable daypart and, as Randy said, one that we have a lot of control over and we can amortize over; and I think that's certainly part of the — five years from now, it will be an even bigger part of network television.

Victor Miller: How much was your 2001 actual advertising recorded at the networks below 2001's original budget? What was the impact of 2001 in general? Any sense of that?

Randy Falco: I think it was single digits. It was probably in the 5%-10% range.

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Broadcast Network Prime-Time Programming Costs

	During Fin-Syn	Post-Fin-Syn	% Change
Drama (1-hour)	0.7-1.2 million	0.9-1.6 million	29%-33%
Sitcom (1/2-hour)	0.5-0.9 million	0.7-1.1 million	22%-120%
Reality (1-hour)	N/A	<1.0-2.0+ million	N/A

Source: FCC Working Paper, "A Broadcast TV Survivor in a Sea of Competition," December 2000. Based on data from 1994-1999. Reality programming is new.

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Victor Miller: **Is** that fair? Let's look at the programming expenditures. This is right from the FCC working paper, "A Broadcast TV Survivor in a Sea of Competition." It shows the cost **of** a one-hour drama, sitcom, reality, during fin-syn [financial syndication rules were put in place by the Department **of** Justice and the FCC in the early 1970s to prevent networks from having ownership interests in television shows that the networks aired in prime time] versus post-fin-syn [the financial syndication rules were struck down in 1994]. **You** can see the change has been to the positive; it's more expensive to put a drama and a sitcom on the air than it was at that point.

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Top Ten Prime Time Shows: 1982 – 1992 – 2002

Rating is based on the number of households in the top 100 cities

1981-82		1991-92		2001-02		2001-02 vs. 1981-82	
	AA Rating		AA Rating		AA Rating	% Chg	
1. Dallas	C 28	60 Minutes	C 22	Friends	N 15	-46.3	
2. 60 Minutes	C 28	Roseanne	A 20	CSI	C 15	-48.2	
3. The Jeffersons	C 23	Murphy Brown	C 19	E.R.	N 14	-38.4	
4. Three's Company	A 23	Cheers	N 18	Everybody Loves Raymond	C 13	-44.2	
5. Alice	C 23	Home Improvement	A 18	Law and Order	N 13	-45.2	
6. Dukes of Hazzard	C 23	Designing Women	C 17	Friends 8:30PM	N 12	-47.0	
7. Too Close for Comfort	A 23	Coach	A 17	Survivor: Marquesas	C 12	-48.7	
8. Monday Night Movie	A 23	Full House	A 17	Survivor: Africa	C 12	-48.9	
9. M*A*S*H	C 22	Unsolved Mysteries	N 17	CBS NFL National Post Game	C 12	-47.2	
10. One Day at a Time	C 22	Murder, She Wrote	C 17	The West Wing	N 11	-48.3	

AA rating – the percent of TV households tuned in per minute

AAABC: C-CBS, N-NBC, broadcast seasons are generally from September or October through April.

Source: TV Dimensions 2002; Nielsen; Bear, Stearns & Co., Inc.

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But, interestingly, if you look at 1981, the top ten shows and what rating they pulled. The top ten shows in 1991 and 1992 season.. .then you look at this year. . .the top-rated show is off **46%** from what it was 20 years ago. So, the question, I guess, is how do you maintain, and what changes have you made to your prime time to adapt to the reality that it's more expensive to program and the audience levels are lower? And I'll just kick that off with Randy, if that's okay.

Randy Falco: Well, the first thing I would do here is suggest that you need to index these, right? Because those ratings in 1981 were when there were **15** channels going into most homes, and now there are 89. So, you're really sort of way overindexing where you are against all the competition, if you take that into account.

Victor Miller: But nonetheless, you're spending a lot more money to reach, theoretically, a smaller rating.

"You're going to have to invest in your top-line shows, and they're going to be expensive. And you're just going to have to figure out how to make the rest of it work"

Randy Falco: You're always going to spend a lot of money for, it's like — you have to look at it like there's a portfolio of shows. And there's five to six to seven top shows on every network that are going to be expensive, no matter how you look at it. And you've got to invest in that. And I think what you've seen over the past year or two, in particular, is that there's more of an investment now in reality shows. And the reality shows are less expensive, and they tend to be easier to deal with. And I think that's the only way to deal with those things. Going forward, there's no question about it, in this kind of a world of great competition and the eroding environment, you're going to have to invest in your top-line shows, and they're going to be expensive. And you're just going to have to figure out how to make the rest of it work.

Tony Vinciguerra: I would add, Victor, that between 1981 and 2001, the number of viewers probably has increased 15%-plus. I don't know the exact number, you

probably have those there. So we sell on **CPMs**, cost per thousand viewers reached. So, a 28 rating at that point was 28% of. . .

Victor Miller: Fewer — much fewer households, right.

Tony Vinciguerra: Right, so, it's something also to keep *firmly* in mind there.

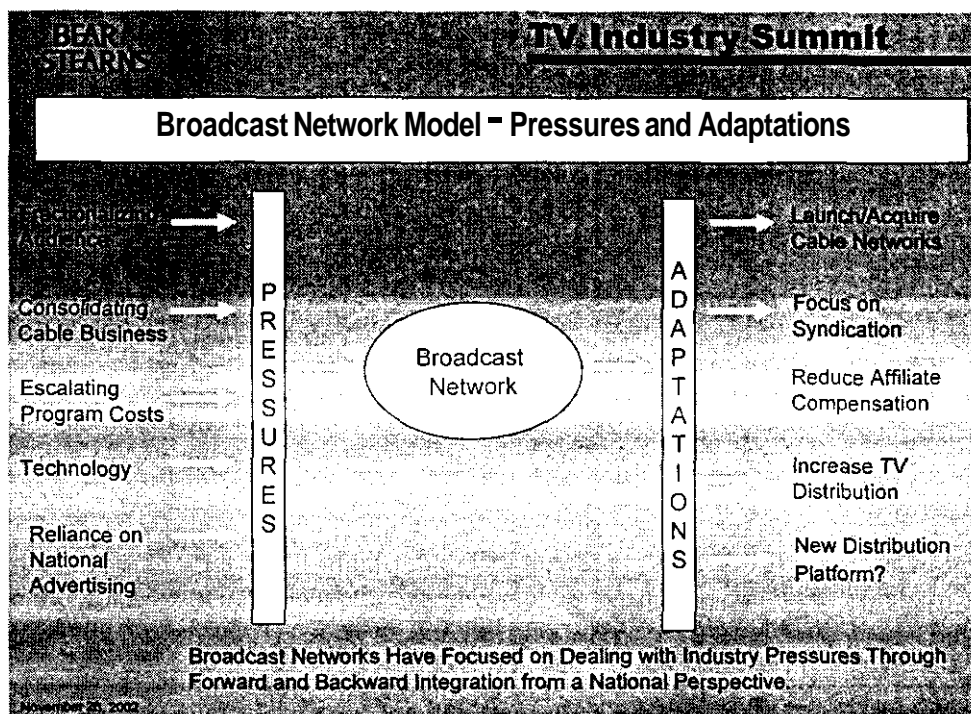
“We’re the only people in TV who basically throw a lot of our product away. We make 30 pilots, and we put six or seven or eight of them on the air.”

David Poltrack: What I was talking about earlier, this top ten . . . one of the things about network television that allows us to differentiate ourselves is, we’re the only people in television who basically throw a lot of our product away. We make 30 pilots, and we put six or seven or eight of them on the air. We then fill 22 *hours of* prime-time programming. And we’re a hit-driven business. I mean, I think everyone here can point to probably three or four shows that generate most of their profits. And that’s what the name of the game is. You’ve got to play in that arena. **And** if we stop doing that and try to cut back, just by sheer probability, we’re going to get less of those hits. And that’s what drives our business is hits. And ***Friends*** is a bigger hit today than even Dallas was back then, economically, because the fact is, not only are there more consumers, but these consumers are worth more money to marketers today — substantially more money to marketers today — than they were back then. And they’re a valuable resource, and we don’t have as many of them, but they’re more valuable than they were then.

Tony Vinciguerra: And, additionally, the platform, the playing field, for advertisers has changed dramatically. The way an advertiser might look at this today is you buy ***Friends***, you buy the broadcast networks to build reach, and then you build frequency by buying the other medium.

Randy Falco: You also average down your price that way.

Tony Vinciguerra: Exactly. And in 1981, the number of cable networks **was** a fraction of what it is today, and you couldn’t do that then. Today, you **can** build a reach by buying Fox network and the NBC network and the CBS network and then fill it in by buying the Fox cable networks and Viacom’s networks and everyone else.



Victor Miller: Let's talk about how you've adapted to the pressures on the model. First of all, let's talk about the station business and duopoly. Fox and CBS have sought to maximize the size of their distribution base and duopoly reach, while NBC generally does not because it's not English language. They've chosen Telemundo as a second network . . . what's the difference there in the approach? Why are you at 38% coverage, and why do you think you're only at **24%** with your owned and operated TV group? Is that the right balance for you?

Randy Falco: I think it's just that we made the investment in Telemundo. We have six duopolies, if you add in the Telemundo stations. But listen, we believe in it. We think it's a key to the future. And to the extent that we see stations that are affordable and we think have growth potential, we'll be buyers.

Victor Miller: Any comments from either?

"The more **O&O** television stations we have, the more money we're going to make on sports franchises. Without a big television base, sports will go the way of cable."

David Poltrack: We're **as high as** we can get. I mean, essentially, we are very . . . we really believe in the television station business. We think of the . . . a network to own . . . the more television stations we own the more . . . sports franchises are a perfect example. Obviously, as I said, when we do the economic equation, one of the things that goes into it is how much money our owned and operated television stations are going to make on a sports franchise. The more owned and operated television stations **we** have, the more money we're going to make on sports franchises. Without a big television base, sports will go the way of cable. I think that, essentially, we need to get total value out of those sports franchises, or they're going to be moving more and more to the pay sector. And that's one thing that increasing our station base allows us to do. And we think it's vital to our company that we're able to do that.

“We have to buy programming, in some cases, **that** costs us **\$10** million an episode! And we get to play it **two** times. HBO gets to play *The Sopranos* ten times a week. I get to play *ER* once.”

Tony Vinciguerra: I would agree that, on a national sports basis, the more stations you own, the better the economics become. That's true.

Randy Falco: I think it goes to the overall issue, though, of all of us, whether it's at the network level or at the local level, being able to sort of amortize all of this cost that we have . . . whether it's in news gathering or in programming across more platforms. You asked me before, what's the key going forward, particularly in prime time? The model we have is a very difficult model. We have to buy programming, in some cases, that costs us \$10 million an episode! And we get to play it two times. That's a difficult model. HBO gets to play *The Sopranos* ten times a week. I get to play *ER* once.

Victor Miller: And then they [AOL Time Warner] put it on DVD and sell it.

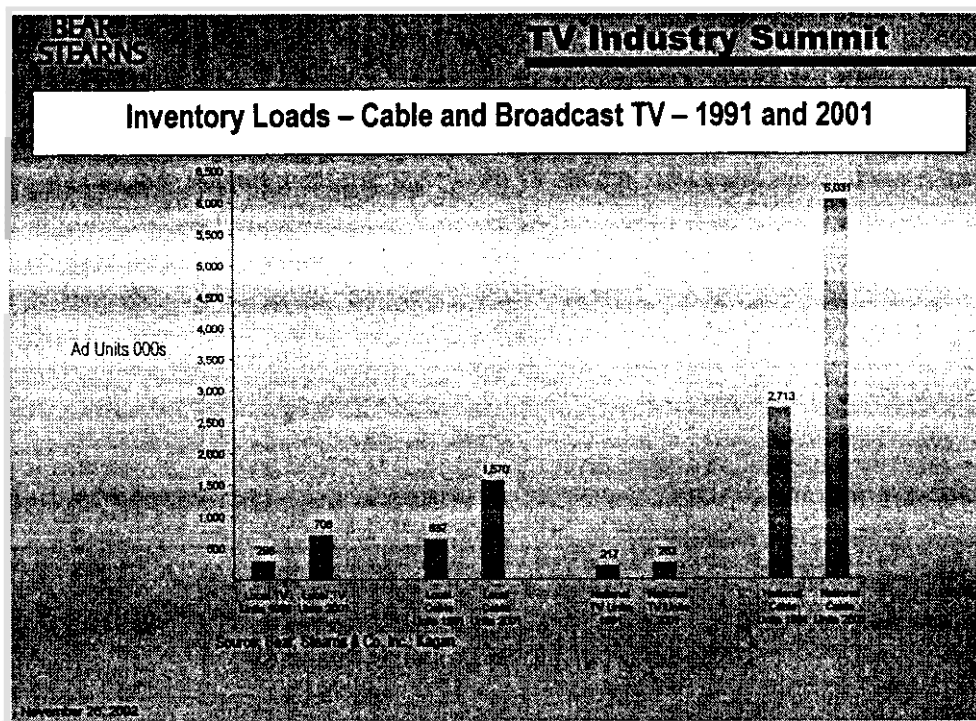
Randy Falco: Right. So, it's . . . that kind of stuff has to evolve over time. That's why you get into things like Bravo. That's why you get into things like MSNBC and CNBC, so you can leverage your news costs. That's why a local station — they're hubbing more on a regional basis because they want to take all of those back-room resources that they have and leverage it across as many platforms that they possibly can. And that's the key for all of us going forward, whether at the network level or the local level.

Victor Miller: Let me ask you a question, Randy, specifically. You're now basically supporting the second Spanish-language network, which is only a 20% share of the marketplace. You have a nice O&O station in a lot of your markets. If you wanted to start up another, or own a third channel, or essentially a **second** English-language channel, what's the case for a triopoly? Is there a case for a triopoly?

Randy Falco: Well, I think there is. I mean, I think . . . some of the panels before talked about the arbitrariness of the measurement. You know, why couldn't you own three stations in Los Angeles, where there are 20 high-powered stations in the marketplace? Why couldn't NBC just hypothetically have KNBC, KY, which is the Spanish-speaking station in that market, and maybe even a **Pax** station? And service all three — have three different audiences, and unduplicated audiences. The **NBC** station is probably going to be slightly younger. The Spanish-speaking station, they are nonduplicated viewers; they do not watch English-language television. And it's a large segment of the population that's being underserved right now. And we think that there's great opportunity there. But, also, you could create a Pax station in that — if the cap ever gets lifted. So, there is a case, there's a perfect model for us to be able to, again, leverage ourselves across different platforms in the local market.

Tony Vinciguerra: We think we do have triopolies in a number of markets where we own two TV stations plus a regional sports network. And people may not be aware . . . the economics of those regional **sports** networks is a great business. And in many market, you can achieve very high ratings within them — in Seattle or Detroit, where the Mariners will do 12 or **14** ratings, and Detroit, with the Red Wings, will do 12 or **14** ratings of those, too. It gives you a third leg of the stool.

Victor Miller: Interesting. Now, historically, the networks used retransmission consent negotiations to negotiate for a new cable channel and help the distribution of ones they already owned.



There is a large amount of cable inventory. So, adding new cable networks going forward may only agitate an already poor situation. Are we reaching a stasis where that may not be the first thing you'd like to do with your retransmission consent and you'd actually consider trying to get paid for your owned and operated stations?

Tony Vinciguerra: I think that is where we are, and I think those decisions are being made today. While we have a number of cable networks, I think if you count them the right way, you can get up to about 30, I think, on the . . . in the **Fox** company owned and partnered. We think there are a couple of ideas, a couple of genres out there that could support very specialized, very specific areas . . . that could support another cable network, but there's not a lot of them, I don't think. So, I don't know that any decisions have been made one way or the other but, certainly, we are at that stasis point.

Randy Falco: I think we feel the same way. I mean, I think we've already established that, just in general, adding another cable network is not going to be very helpful.

“I think we’ve got to get more of the value of retransmission back to the television station — not to the network, but to the television station.”

Victor Miller: David? Feel the same?

David Poltrack: I was back there with Jay Kriegel back in the beginning when we thought we were going to get money from the beginning. And ABC took the wind out of it. So, yes, I think that’s certainly the goal, is that there’s competition coming in the cable front; there’s competition in the satellite front. I think we’re the most important thing they have, but it’s going to work in the television station side. I think we’ve got to get more of the value of retransmission back to the television station — not to the network, but to the television station.

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Market Share of Basic Subscribers by MSO

	Cable Penetration	Comcast	AOL	Charter	Cox	Adelphia	Cablevision	Total	Comcast TV HH%
New York	75%	14%	24%	1%			51%	100%	11%
Los Angeles	64%	18%	12%	18%	10%	41%		99%	12%
Chicago	65%	38%						98%	54%
Philadelphia	73%	26%	4%					100%	76%
San Francisco	73%	26%		1%				99%	72%
Boston	80%	15%		5%		1%		100%	35%
Dallas	67%	17%		23%	1%			97%	33%
Washington, DC	70%	13%			19%	10%		100%	14%
Detroit	68%	17%		3%				100%	27%
Atlanta	70%	15%		23%				98%	23%

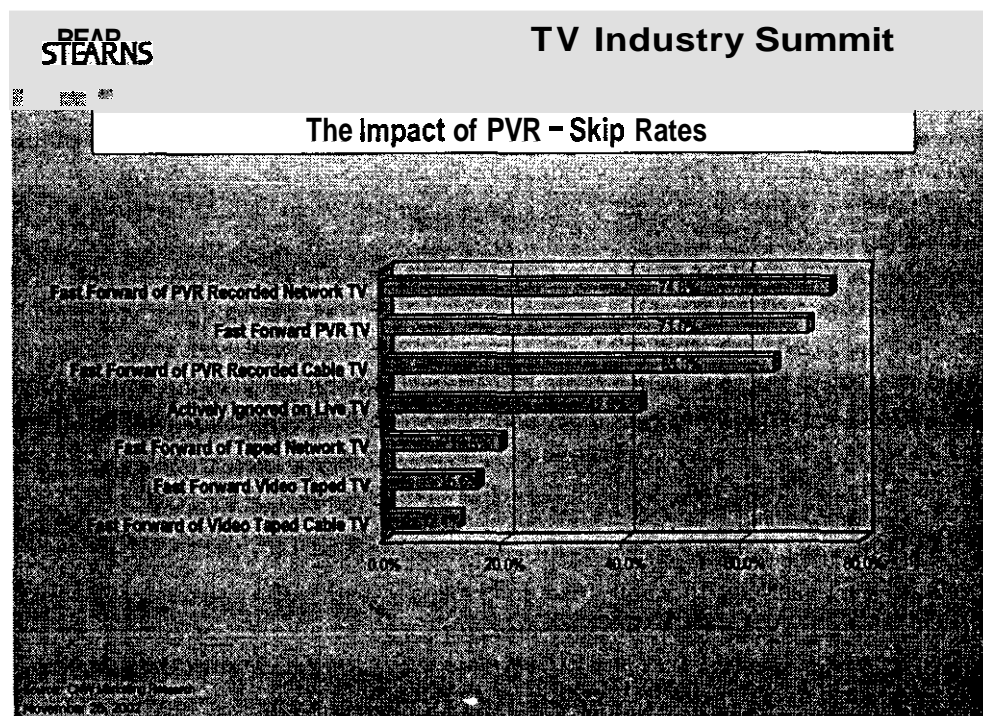
Source: © 2002 Comcast Network, New Orleans, LA, Inc.

November 26, 2002

Victor Miller: David — the famous market share of the MSOs. The difference here, for you, is, the last time I checked, you’re in New York, L.A., Chicago, Philly, San Francisco, Boston . . . all these markets . . . when you’re going to be contending with some fairly significantly concentrated, almost single-player competitors in a lot of these marketplaces. What is that going to mean for the negotiations you have on both your local stations? What you saw with YES Network, with Cablevision, where they said, we’re going to leave the Yankees off the air in New York? Guess what? They were never on the air. Is there any lesson to be drawn on that the power that the cable network had — I mean, sorry, the cable MSO had relative to the cable network? And what impact that could have on affiliate fees going forward?

“This is a gatekeeper function, essentially, that these cable operations have. We have to pass through that gate. And it is of significant concern for us.”

David Poltrack: Certainly, these figures would be alarming to anyone that was in the business. I mean, this is a gatekeeper function, essentially, that these cable operations have. ‘And we have to pass through that gate. And it **is** of significant concern for us, and that’s why we would like to see multiple options. The economics of cable television right now are built on the bundling of assets and everybody getting a subscription fee by tiering and tying together the product. And we have been **left** out of that equation. I think we definitely have to work with these powerful cable operators. The whole way that television is going to be directed. One of the things that they were trying to do, and I don’t think it was discussed too much, is this whole idea of the program guide, and the idea of what you see when you turn on your television. And I think that’s absolutely one of the most critical things is what you see when you turn on your television. They control what you see when you turn on the television, and *that* worries us, and we’re going *to* have *to* deal with that.



Another comment about something that relates to that. It was mentioned today, PVRs, there was some discussion earlier today about PVRs and the impact of **PVRs**. And there was a big article in *Electronic Media* about **PVRs**. I just have to say, when are you people going to stop listening to Forrester Research? I mean, come on, guys, these people, right now, according to them, in the beginning of **2002**, there were supposed to be two million TIVO's out there. I mean, they haven't been even close to right on any of this. Yet, *Electronic Media* **talks** to Josh Burnoff as if he is a god who has predicted everything. This guy has never been right — he's way out there.

Victor Miller: How do you feel?

Tony Vinciguerra: You should go back to **1999** and read their research and forecasts.

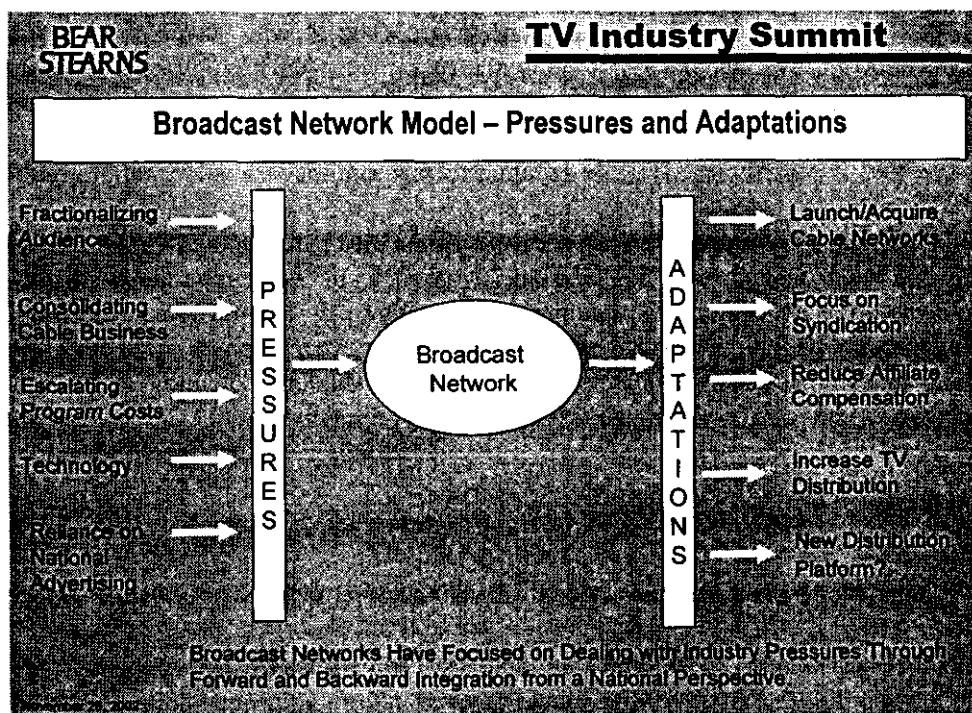
“They bought VCRs to avoid commercials; they bought remote controls to avoid commercials. They have a passion about avoiding commercials.”

“The bigger these cable companies get, the more difficult it’s going to be to enforce the **kinds of** things they say they’re **going** to enforce.”

David Poltrack: I have a PVR; PVRs are going to have a significant impact. We have to deal with it. But all of those statistics you showed . . . 1% of the people . . . this is the same percentage of the people that have been avoiding commercials all their life. They bought VCRs to avoid commercials; they bought remote controls to avoid commercials. They have a passion about avoiding commercials. *So*, don’t project that 1% onto the population like our friends at Forrester.

Victor Miller: And a great ending comment there . . .

Tony Vinciguerra: I’ll take a different tack. I’m not sure that this will play out, but it seems to me, again, the same dynamic comes to the fore here that is happening with the very large buying services. The bigger these cable companies get, the more difficult it’s going to be to enforce the kinds of things they say they’re going to enforce. It’s going to be very difficult, given monopoly situations in many of these markets that these MSOs will enjoy, to enforce what you’ve described as a kind of a doomsday scenario. The world doesn’t work that way. The world accommodates, the world comes to conclusions, the world comes to balance . . . to stasis points over time.



Victor Miller: Here’s that model we talked about — the pressures on building on the broadcast side. If you look at the launching and acquiring of cable networks, that kind of seems to be running its course. Syndication is running its course. Affiliate compensation, I imagine, is going to be much less of an issue for you going forward, so that won’t be a big thing for you to look at in five years time. It looks like a lot of the pressures that build here **as** they run **through** your model . . . a lot of the escape hatch is going to be right there [increasing the size of broadcast networks’ TV station groups] in the next five years — five years off, let’s say. So, cable multiple system operators are allowed to reach **40%** of the U.S.; **DBS** players are allowed to reach the entire U.S. marketplace footprint. You’re currently limited to **35%** reach. But while

one cable player can actually exclusively penetrate an entire marketplace, your broadcast network competes heavily for that consumer. **Are** reach numbers consistent? And **am** I right about the escape hatch in five years? And what do you **think** is the right thing to do structurally for the industry?

“If NBC owned a station in **every market in the country, we would **influence 8% of** the population in prime time. Not **35%.**”**

Randy Falco: I think we have to come up with a new measurement system. When we talk about this **35%** cap — I’ll give you two ways to think about it. If NBC owned a station in every market in the country, 100%, which will never happen, but if they did, we would influence **8%** of the population in prime time — not **35%**. Eight percent. And so, the 8% that we do have in prime time right now, since we’re only in 35% of the country, is influencing 3% of the population. So, I *don’t understand this* whole measurement issue; I don’t quite get it, that there’s a theoretical cap placed on us, that there’s an actual cap placed on the cable guys, but a theoretical cap placed on us that has nothing to do with anything. We don’t influence **35%** of all the viewers in the markets that we have television stations. We only had 8% of the viewers. So, in order for us to . . . I mean, I’m not going to sit here and ever . . . as much as I don’t like the chart that you had up there before . . .

Victor Miller: Which one was that?

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Market Share of Basic Subscribers by MSO

	Cable Penetration	Comcast	AOL	Charter	Cox	Allegria	Cablevision	Total	Comcast TV
New York	73%	14%	2%	1%				100%	11%
Los Angeles	54%	18%	12%	10%	10%	4%		98%	12%
Chicago	65%	8%						98%	8%
Philadelphia	73%	9%	4%					100%	7%
San Francisco	73%	9%		1%				99%	22%
Boston	50%	83%		8%		9%		100%	88%
Dallas	50%	73%		25%	1%			99%	37%
Washington, DC	70%	6%			1%			100%	14%
Detroit	59%	37%		3%				100%	10%
Atlanta	70%	10%		23%				98%	2%

Source: BIA 2002 Database; Bear Stearns & Co. Inc.

November 26, 2002

Randy Falco: That showed that Comcast, for instance, is in a controlling position in eight out of the top ten markets in the country. I’m not going to argue for a reregulation [of the cable business], but I am going to argue for a deregulation for **our** industry. The deregulation that’s been around, that’s been shrouded in regulation for **40** years, and in the last 40 years, we’ve had the Internet, we’ve had **DTV**, we’ve had cable — these are all explosions in media, and yet, the same caps, the same regulations that existed 40 years ago still exist for us, while they don’t exist for anybody else. They don’t exist for cable; they don’t exist for radio. I mean, it’s crazy. And *so*, if you really want to look at structural changes going forward, fine, let these

guys — that will get sorted out one way or another. But we cannot even deal with it unless in a market we can have a triopoly . . . unless I'm allowed to somehow own more than 35%, and that doesn't mean own 35% of the country just for NBC, but allow me to have a position so that I can take advantage of my Telemundo investment, that I can take advantage of a Pax investment that I'm not able to take advantage of now because there's a ridiculous arbitrary cap placed on the networks. And I don't buy the whole argument, and I'll say this to my friends in the publishing business who sit up here and argue that the cross-ownership for newspapers should be eliminated, but the caps on the networks should stay in place, and isn't that convenient, so that they don't have any competition in the marketplaces that they want to buy stations. But the networks won't be able to compete with them buying those stations, I mean, there's a fundamental principle here if you're in business. If you're in business, and you have assets, you should want as many people chasing those assets with their dollars as you possibly can. That's the way to maximize the value of your assets, not by going to Washington and crying and moaning and asking for regulation and protection. The free market always figures that out.

Victor Miller: Tony?

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Voices in Selected Media Markets – 2001

El Paso, TX Phoenix, AZ Rockford, IL Syracuse, NY New York, NY

Media Other than Local Television and Cable Networks	3	5	5	7	15
Local TV Stations	5	7	15	5	11
Local Cable Networks	2	2	2	5	11
Local Media Other than Internet	38	35	46	32	7
Internet	20	20	22	10	12
Local Media	65	62	75	54	22
National News/Sports-Oriented Cable Networks	5	11	11	13	13
National Entertainment-Oriented Cable Networks	10	13	11	21	13
Total Voices	80	91	115	112	57

Source: Phoenix Daily Post, Department of Agriculture and Media Communications, Syracuse, NY, New York, NY, Cable, Health Communications, Cable Services, Inc., Bear Stearns & Co.

November 28, 2001

**BEAR
STEARNS**

TV Industry Summit

Local Media Voices in Selected Markets – 1942, 1962, 1982, 1995, 2002

	Population	Media Sites Including Internet 1942	Media Sites Including Internet 1962	Media Sites Including Internet 1982	Media Sites Including Internet 1995	Media Sites Including Internet 2002	Internet Sites 2002	Total Voices 2002
Lisbon, ND	2,200	11	17	25	34	32	26	58
Florence, SC	34,000	4	7	12	20	50	34	84
Rockford, IL	150,000	5	12	19	31	38	27	62
Syracuse, NY	150,000	15	18	35	51	77	67	144
New York, NY	20,302,000	57	93	133	170	189	55	244
<u>Change in Voices Since 1995 (Pre-Telecom Act)</u>								
Lisbon, ND						-5.9%		70.6%
Florence, SC						150.0%		320.0%
Rockford, IL						12.9%		100.0%
Syracuse, NY						51.0%		182.4%
New York, NY						11.2%		43.5%

Source: Professor David Pritchard, Department of Journalism and Mass Communication, University of Wisconsin-Milwaukee, 2002; Bear, Stearns & Co. Inc.

November 20, 2002

Tony Vinciguerra: I think Randy said it very precisely and right on target that if in the world that you showed earlier, where there are so many voices in every market, there is no need for regulation of these assets.

Victor Miller: There were a couple of suggestions made on earlier panels. One **was** the concept of the network giving back some time to allow the local affiliate to program that time, with the argument being that there are certain dayparts where you're just — 80/20 rule — you just don't make money in some dayparts or some show times. And would that be a consideration? And the other one that was suggested, will there ever be 52-week original programming? And should they change the whole concept of sweeps in general?

"The cable **networks** rushed all their **new** programs in the summer, **when** we were in repeats, and we lost **a** lot of our audience. We can't **allow** that to happen anymore."

Randy Falco: I think there has to be a 52-week schedule for the networks; it may not be perfect and it may not be 100% new programming. I mean, the networks put on 3,000 original hours of programming in a year — 3,200 to be precise, which is about five or six times what any cable network puts on. So, we put a lot of programming out there. But the model does have to evolve, **as** I say. Where the cable networks ate our lunch was during the summertime. They rushed all their new programs in the summertime, when we were in repeats, and we lost a lot of our audience. And we let them do it over a course of five to ten years, and we just can't allow that to happen anymore. And so, we've got to figure out how to pay for that. We can't increase the cost of the network model any more than it already is. And we've got to figure out, how do you evolve the summertime into more, sort of, new programming — whether it be scripted or reality — get additional ratings for that and monetize those ratings? And to the extent that you can do that, if we think we can in the third quarter, there's plenty of money out there that you can actually monetize. I think that's what we have to evolve **to**. In terms of handing back time to the affiliates, the problem is, you can never get a consensus from the affiliates **as** to what times they want back and not back. That's the difficult process.

“We’ve trained the viewer **not** to want to watch network television **during** the summer.”

Tony Vinciguerra: I think you’re seeing what Randy described; you had a 52-week model of network programming happening as we **speak**. This past summer was a record **number** of hours of original programming on near the summers. I agree that over the **past**, I don’t know how many years it is, five, ten, whatever it is, we’ve trained the viewer not to want to watch network television during the summer. As a consequence, we can’t repeat many of our programs. As Randy said, he can run **ER** once. He can actually **run** it more than once, but nobody will watch it a second time because no one would watch many of our programs a second time because we’ve trained people to do that. One of the things that could help **us** . . . someone raised the point earlier that Nielsen needs a competitor; I wholeheartedly agree with that. And if we could get 52-week measurement in the local markets, then we wouldn’t have to have sweeps. And that would be a great benefit to everyone.

Randy Falco: Network heads, here’s your chance,

Victor Miller: Anyone else want to ask a question?

John Korureich: A little anecdote, because I’ve been following broadcasting — I hate to admit it — over **30** years. But I remember going back **30** years ago, I looked at the revenue of the network, and, at that time, the networks were operating at breakeven, just to show you how things don’t change. And I would say to myself, boy, they can only get a 10% or **15%** margin, just think what they could make. And then a guy straightened me out. I know you two guys have heard of this guy — probably very few here have — his name was John Sias of ABC. And he said, “you’re looking at it all wrong. The networks **are** not in business to make money. We’re in business to not be a cash drain and feed programming to our **O&Os**. **You** should view it as one gigantic vertically integrated operation. If the network can cover its capital costs and, therefore, have no cash bleed, that’s all you need.” And it seemed. . .

Tony Vinciguerra: I’ve used this example many times. If you take the Fox **O&O** group, and if you take Victor’s and Ray’s numbers for the Fox **O&O** group and the Fox network, you put the two of them together, you have a business that generates about **\$4 billion of** revenue — somewhere in that neighborhood — generating last year, I don’t know, what, \$700 million in cash flow? No, excuse me, it was about — that station group was, like, and you’re quoting your number, \$750 million, you take out the loss of the network, it was about \$500 million in profit for that **\$4 billion** of revenue. That’s less than the number of TV station groups have generated on a fraction of that **\$4 billion**. That’s not a great business, even if you do integrate it. It’s a good business, not a great business. **So**, it’s a struggle to . . . even if you vertically integrated all those businesses.

Randy Falco: Honestly, though, here’s how we think about that — at **NBC** anyway. There is no way that I will ever accept the principle that it’s okay for the network to lose money because the day you do that you become a very unattractive asset — both in terms of the CEO and his willingness to invest in the business and of shareholders in general. You can’t ever accept that principle, because the second that you do, you’re done, because you’ll break even **for** the rest of your life.

Tony Vinciguerra: And you become the government.

John Kornreich: **You** don't buy sports for the network with an eye to the O&Os?

Randy Falco: Well, we look at sports, and we always include **the** O&Os. But the fact of the matter is my friend here just wrote off close to a billion dollars . . .

Tony Vinciguerra: ~~\$93~~ I million.

Randy Falco: And I'm sure he needs something to account for the local television stations when he did that.

Tony Vinciguerra: Absolutely .

Randy Falco: But the fact of the matter is it doesn't work, and the whole issue of promotion — we stepped out of the NFL, and we're still No. 1 in prime time. When everybody told us if you step out of the NFL, you're going to lose all that promotion — don't do it — it's crazy.

Victor Miller: Any other questions?

Tony Vinciguerra: Just to put a period on that sentence, there is no way either of **our** companies expect the networks to continue to lose money. We are motivated every day to return these businesses to be profitable.

Randy Falco: That's a very nice way of putting it.

Audience Participant: Just help me a little bit ~~more~~ with this conversation you have with the cable companies about trying to get paid for your content. How do you approach them with that? Do you threaten to pump some of your cable networks down the extra spectrum you have when you move over to digital? Do you just tell them you're going to withhold the channels in certain markets and see how they fare? I mean, just flesh it out a little bit for me because it seems like a huge opportunity for a lot more margin to your bottom line.

Randy Falco: That's true, but we haven't said we're going to do that.

Victor Miller: It's a lot harder to do than the theory. And that's the whole point.

Tony Vinciguerra: There are conversations . . . I think what I said earlier is that's the conversation happening right now, to determine how to do that. But it may not be the way we go. We have a very big investment in cable businesses, and to put those at risk might not be the right way to go.

Victor Miller: ~~Last~~ question, **Mr.** Jim Beloyianis?

Jim Beloyianis: Thank you. I agree with David's statement about PVRs and TIVO, or the early adopters are really not projectable. But I would be concerned about what the cable companies, which are going to have the same capabilities of TIVO in their new decoder boxes . . . they're the gatekeeper. Doesn't that concern you in terms of what could happen with commercial zapping five years from now?

Tony Vinciguerra: I'll take a quick crack at it. It is a concern, but it's not in my top ten list **of** concerns right now. I think that, **as** David described, certain people will use the **PVR** to avoid commercials. And, someone talked about it earlier, people just wanting to avoid commercials, period, and they've tried **for** years and years to avoid commercials. And some **do**, and they do it today. But the fact is there are technological ways to avoid the machine being able to do that. And, if we want to do that, we can do that at any given time. **So**, it's a concern, but not a great concern to me.

Randy Falco: Yes, we're not whistling past the graveyard on this. I mean, clearly, it's a concern, but the *fact of the matter is, in most of the research that we've done*, TV is still a passive medium. A lot of people will sit there and watch the commercials, even if they're taped; two-thirds of them will.

Victor Miller: Thanks very much